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GREENHOUSE GAS STRATEGIES OPINION RELEASED

SACRAMENTO — The California Energy Commission and the California Public Utilities Commission today released their proposed opinion on strategies to help reduce greenhouse gas emissions and meet AB 32 goals. The *Proposed Final Opinion on Greenhouse Gas Regulatory Strategies*, prepared jointly by President Michael Peevey (California Public Utilities Commission) and Chairman Jackalyne Pfannenstiel and Commissioner Jeffrey Byron (California Energy Commission's AB 32 Implementation Committee), provides recommendations and outlines a variety of options for the Air Resources Board (ARB) to consider in deciding how to design a program to achieve the greenhouse gas emission targets in the electricity sector.

The *Interim Opinion*, adopted in March 2008 by the two Commissions, recommended aggressive regulatory measures that maximize energy efficiency and expand renewable energy development beyond the 20 percent goal, and consideration of a multi-sector cap-and-trade program to capture additional cost-effective reductions of GHG emissions. The *Interim Opinion* also recommended that the "deliverers" of electricity to the California grid would be responsible for complying with the AB 32 regulations.

Currently, the electricity sector accounts for 25 percent of California's GHG emissions. The ARB's *Climate Change Draft Scoping Plan* expects that the electricity industry will contribute at least 40 percent of the total greenhouse gas reductions from direct mandatory approaches and measures. With the addition of a potential cap-and-trade program, the electricity sector may be called upon to reduce its emissions even more. The *Proposed Final Opinion* describes specific mechanisms for requiring the electricity industry to meet the goals set out in the draft *Scoping Plan*. To achieve these ambitious cuts in GHG emissions, the *Proposed Final Opinion* offers recommendations and options in energy efficiency and renewable resources and combined heat and power (CHP) and describes a complementary cap-and-trade program. Specifically, the *Proposed Final Opinion*:

• Reaffirms a commitment to pursue all cost-effective energy efficiency options in the state and advocates expanding renewable energy use to 33 percent for all retail providers.

•Considers electric sector costs and rate impacts of reaching the 2020 GHG levels through more energy efficiency, greater use of renewable energy and increased CHP. It concludes that the impacts will vary depending on service territory and on the design of the ultimate program to be developed by the ARB.

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A variety of illustrative scenarios developed by the Commission staff and consultants indicates that, unrelated to AB 32 compliance, utility rates are likely to rise above inflation due to increased capital and operating costs and load growth. Under some scenarios related to AB 32 policies, however, utility costs may be reduced compared with business as usual, after accounting for significant adoption of energy efficiency by consumers.

• Recognizes the value of higher energy efficiency provided by CHP projects and recommends that for larger installations (over the size threshold adopted by ARB), the GHG emissions for electricity consumed on site and/or delivered to the grid be included in the cap-and-trade program and receive allowance allocations comparable to other electricity providers and consumers.

• Identifies auctioning as the preferred method to distribute emission allowances. Starting in 2012, 80 percent of the emission permits or allowances would be distributed for free to the electricity deliverers and 20 percent would be auctioned, with 100 percent auction by 2016.

• Recommends free allowances would be allocated to deliverers based on energy output and electricity fuel source. Allowances would be granted to the electricity retail providers on behalf of their customers with the allowances offered for sale in an independent, centralized auction. These allowance allocations will change over time based on historical portfolio emissions to a sales basis by 2020, to allow transition time for retail providers with emission intensive portfolios.

• Describes that auction revenues are to be used for AB 32-related purposes and all revenues auctioned by the retail providers are used to support investments in renewables, efficiency, new energy technology, infrastructure, and customer bill relief.

• In considering market structure, requires that the key market design feature is maintaining environmental integrity. Market structure should encourage open and transparent allowance trading with many participants, unlimited banking of allowances and offsets, and offsets that must meet AB 32 requirements to be real and permanent. Offsets should not be limited geographically. If a multi-sector regional cap-and-trade is developed, a three-year compliance period should be established to allow time to implement emission reduction measures and to account for hydrologic conditions that can significantly impact the electricity sector.

Development of this *Proposed Final Opinion* has been an open public process beginning with a joint Commission symposium in April 2007 that addressed greenhouse gas emissions and various types of cap-and-trade markets. A number of workshops have helped craft the recommendations. After public comments, the Energy Commission and the Public Utilities Commission will consider individually adopting this finalized opinion at their October 16, 2008 public meetings.

The *Proposed Final Opinion on Greenhouse Strategies*, *A Summary of the Proposed Opinion* and *Frequently Asked Questions* are available from the Energy Commission at http://www.energy.ca.gov/ghg_emissions and from the California Public Utilities Commission at www.cpuc.ca.gov and click on Climate Change.